

ROMANIA - IN SEARCH OF THE EU LOST FUNDS

Abstract

During the 2007- 2013 programming period Romania has been granted 19.6 billion euro of the EU Structural and Cohesion Funds and 8,3 bn euro of EU Agricultural and Fisheries Funds. Unfortunately, the Romanian's level of absorption of Romania is the lowest in the EU. The paper focuses on the poor Romanian' s absorption capacity, on main causes, consequences and on some of the proposed measures to increase the amount of paid EU funds.

Keywords: European Union, Structural Funds, Absorption, Administrative capacity

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ROMÂNIA – ÎN CAUTAREA FONDURILOR STRUCTURALE PIERDUTE

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Rezumat

În perioada 2007-2013 României i-au fost alocate 19.6 miliarde euro prin intermediul Fondurilor Structurale și de Coeziune și 8.3 miliarde euro prin Fondurilor pentru Agricultură și Pescuit. Din păcate, în acest moment, la patru ani după începerea acestui exercițiu financiar, nivelul de absorbție în România este cel mai redus din întreaga UE. Articolul se oprește asupra factorilor care au generat o astfel de capacitate redusă de absorbție, asupra consecințelor și face unele propuneri privind creșterea nivelului de absorbție.

Cuvinte cheie: Uniune Europeană, fonduri structurale, absorbție, capacitate administrativă



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1. INTRODUCTION

During the 2007- 2013 programming period, Romania has been granted 19.6 billion euro of the EU Structural and Cohesion Funds (EUSCF) and 8,3 bn euro of EU Agricultural and Fisheries Funds (EUAFF) in order to support the convergence with other EU member countries, increase competitiveness and employment and sustain farming and fishing communities to become more economically resilient. At the EU level, in the 2007-2013 financial period, the EUSCF represent about 35% of the EU budget (346.1 bn euro structural funds from 975.8 total EU budget, namely 35.5% of the 2010 GDP). Over half (51%) of funds are available for the ten new member states from Central and Eastern Europe under the three objectives (convergence, competitiveness and territorial cooperation) and three main instruments of the EU Cohesion policy (the European Regional Development Fund - ERDF, the European Social Fund - ESF, and the Cohesion Fund - CF). According to the EU rules, each country should identify and define its national priorities of development at the beginning of the budgetary period and formalize them in the so-called "Operational Programmes" (which may cover one or several activities).

TABLE 1 - STRUCTURAL FUNDS AVAILABLE TO THE NEW MEMBER STATES

New member states	2007-2013	2011	
	Bn euro	Bn euro	% of GDP
Bulgaria	6.9	1.1	3.0
Czech Republic	26.7	4.0	2.6
Estonia	3.5	0.5	3.6
Cyprus	0.6	0.0	0.3
Latvia	4.6	0.7	4.2
Lithuania	6.9	1.1	3.9
Hungary	25.3	3.8	3.8
Malta	0.9	0.1	2.0
Poland	67.3	10.0	2.7
Romania	19.7	3.3	2.5
Slovenia	4.2	0.6	1.7
Slovakia	11.6	1.8	2.5
TOTAL	178.1	27.1	2.7
Other funds			
Rural development	37.6	5.5	0.6
Fisheries	1.4	0.2	0.0
All funds	217.0	32.8	3.3

Source: Adapted from the EBRD - the EBCI [...], 2011, p.5

2. THE LOWEST LEVEL OF ABSORPTION AMONG THE ALL NEW MEMBER STATES

Even though considerable funds are available for the new member states (51% of the EUSCF), the level of absorption is rather disappointing in most country and particularly in Romania and Bulgaria. According to the Romanian authorities (Romanian Fiscal Council, 2011) the absorption rate is only 8.6% of the total allocation¹ (the highest rate of 15% registering for Regional Development OP and lowest of 1% for the Transport OP2). The amount of EU funds absorbed of Romania divided by the population is also the lowest in the EU, 79 euro per capita against 700 euro in Estonia or 93 euro in Bulgaria (Romanian Fiscal Council, 2011, p.22). The Romanian's low absorption rate is even more obvious when is benchmarked against other new member states (8.6% compared with 17% the average rate of absorption after four years of membership). At the end of 2010, Latvia paid over 1.3 billion euro in EU grants, meaning 29% of the available budget for 2007-2013, Estonia 26% (about 900 million euro), Poland 20.4% (about 13 billion euro) and Czech Republic 12.44% (about 3.3 billion euro) of the allocated funds (Romanian Fiscal Council report, 2011, p.22).

Undeniably, the crisis makes more difficult the absorption process for all EU member states. On the one hand, domestic financial institutions become more reluctant in lending, making the access to credit more difficult. On the other hand, as public finance came under growing tension "many cohesion projects had to be cancelled before the contracting phase got under way or during implementation, as beneficiaries found it impossible to secure their own contribution" (EC, Commission Staff Working Paper, 2010, p.3). Consequently, aware of the supplementary difficulties the crisis may in increasing disparities among EU regions and member states, the Commission proposed a set of legislative changes and targeted recommendations in order to accelerate financing for programmes already approved for 2007-2013, increasing the EU pre-financing and introducing a series of simplification measures. The Commission legislative package³ was adopted in December 2008 and entered into force in the second quarter of 2009.

¹ According to the EBCI report (March 2011, p.7), Romania is again on the last position among the other new member states in absorption of EU funds available under the ERDF, ESF and CF, but with an absorption rate of 13% (Bulgaria of 15% and the average rate of the NMS of 21%). Finally, the real absorption rate (once the payments of cash advances are subtracted) is the same, 3%.

² Transport OP is the least efficient operational program, with only 47 million euro paid until end 2010 (about 1% of the available budget for 2007-2013). In contrast, Bulgaria absorbed 5.81% of its total available budget for transport infrastructure (about 94 million euro) and has a contract ratio of 30%.

³ The legislative package comprised three regulatory amendments:

-Council Regulation (EC) No 284/2009 amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund concerning

However, the efficiency of the Commission legislative package ultimately depends on each member state efforts to make optimum use of the adopted measures. According to Romanian Convergence Programme 2011-2014 (Government of Romania, Convergence Program 2011-2014, p.36), in 2009-2010, a number of specific measures were taken to simplify the implementation mechanism and remove delays in Community instruments absorption, respectively:

- (i) facilitation of beneficiary's access to funds;
- (ii) simplification of project financing mechanisms and facilitation of access to financing sources for both private and public beneficiaries;
- (iii) amending public procurement legislation to speed up tender procedures by reducing tender times.

Nevertheless, Romania remains on the last position in absorption EU funds despite of the measures taken in 2009 and 2009 to simplify the implementation mechanism and a slightly improving in the process of contracting structural and cohesion funds (a contracted ratio of 42% in 2010 compared to 16% in 2009).

TABLE .2 - STRUCTURAL FUNDS ABSORPTION BY OPERATIONAL PROGRAMS

	Total allocation 2007-2013	Payments at December 2010			Absorption Rate	Absorption excl. pre-financing
		Total	Pre-financing	EU Refunds		
Regional Development	3.726	554,9	381,4	173,5	14,9	4,7
Environment	4.512	318,5	266,2	52,3	7,1	1,2
Transport	5.565	47,2	0,0	47,2	1,0	1,0
Competitiveness	2.554	251,2	106,3	144,8	9,8	5,7
Human Resources	3.476	464,2	416,6	47,6	13,4	1,4
Adms.Capacity Dev.	208	10,2	4,1	6,1	4,9	2,9
Technical Assistance	170	9,0	1,2	7,8	5,5	4,6
TOTAL	19.211	1.655,3	1.175,8	479,5	8,6%	2,5%

Source: Romanian Fiscal Council – Annual Report, 2011, p.21

certain provisions relating to financial management (OJ L 94, 8.4.2009, p. 10); Regulation (EC) No 284/2009 entered into force on 9 April 2009;

- Regulation (EC) No 396/2009 amending Regulation (EC) No 1081/2006 on the European Social Fund to extend the types of costs eligible for a contribution from the ESF (OJ L 126, 21.5.2009, p.1); Regulation (EC) No 396/2009 entered into force on 22 May 2009;

- Regulation (EC) No 397/2009 amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing (OJ L 126, 21.5.2009, p. 3); Regulation (EC) No 1080/2006 entered into force on 10 June 2009.

Problems may be identified at all levels of programme implementation, starting with the evaluation and selection of projects but finally, the lack of administrative capacity represents the main reason for the poor absorption of EU funds. One more time, Romania entered the vicious circle of underdevelopment, the low absorption rate, especially in the transport area, negatively influencing the overall level of absorption and reducing the investment propensity of foreign investors and the country opportunity to reduce development gaps. "Numerous investors and the business community, such as the Council of Foreign Investors and the American Chamber of Commerce in Romania, repeatedly underlined that the poor state of infrastructure in Romania is a serious hindrance to investment. Therefore, transport throughout the country is inefficient and dangerous, especially in the North and East", Daniela Nemoianu, Head of Advisory at KPMG Romania, said (Nine O'clock.ro, 2010).

The 23 June 2009 Memorandum of Understanding with the EC (EC, Memorandum of Understanding, 23 June 2009), laying down the economic policy criteria linked to each disbursement, stated as a main measure to increase the level of absorption the restructuring of the Ministry of Transport. The reform of this Ministry means a "separation of task between Ministry and the implementing agencies, clarification of responsibilities and clear accountability, availability of qualified staff and capacity in the departments linked to project preparation for SF support". Neither last but not least, the MoU include the obligation to adopt a multi-annual performance agreement between the Ministry and agencies which "should define a clear accountability framework" and "reduce political interference and frequent change in priorities". The latest addendum (the fourth) from April 2011, has mentioned as a main measure of the "structural reforms" chapter, the submission of a multi-annual performance agreement between the Ministry and implementing agencies, which must take into account and be in line with the Government's medium-term fiscal strategy (EC, Supplemental Memorandum of Understanding, April 2011).

3. CONCLUSION

Since 2008, the year when global crisis hit Europe, Romania has moved from one of the fastest-growing economy in the EU to the last one to recover. The rapid increase in borrowing (capital inflows mainly facilitated by the foreign banks with subsidiaries here) in previous years transformed Romania, as well as Hungary and Latvia, in highly exposed countries, with serious problems in attracting (or even maintaining) foreign capitals. Under these circumstances, it is essential "to accelerate the pace of structural reforms with the aim of supporting potential growth, which should also help restore the sustainability of public finances" and particularly to accelerate the absorption of EU Structural Funds, because "this would allow increasing investment in long-term growth without endangering the achievement of the agreed budget deficit targets" (Council Opinion, 2010, pp.14).

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